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SUBJECT: ARGENTINA: TECHINT CEO ON VENEZUELA
NATIONALIZATION AND GOA INTERVENTION IN LOCAL GAS PIPELINE
AND STEEL OPERATIONS

Classified By: Ambassador E. Anthony Wayne for reasons (B) and (D).

¶1. (C) On January 16, Ambassador had breakfast with Paolo Rocca, CEO of Argentine multinational Techint. The two reviewed Techint's current problems with the Government of Argentina (GoA) over rescheduling debt payments of the regulated Argentine natural gas pipeline company TGN; over Techint's plans to postpone future investment in its Buenos Aires province Siderar steel plant and lay off construction workers in the face of rapidly declining domestic demand; and on ongoing Techint negotiations with Venezuela over nationalization of its Sidor steel plant. Rocca explained the U.S. connection to the TGN issue: 23% ownership by a U.S. investment company which also purchased rights to a successful arbitral award against Argentina for \$130 million.

No Progress on GoV Compensation for Sidor
Nationalization

¶2. (SBU) In May 2008 Venezuela nationalized the Ternium steel plant which employs 21,000 people and had about \$8 billion in revenue in 2007. Rocca said that there had been no progress in negotiations about the value of compensation Techint is to receive for its 60% equity stake in Ternium. He said production at the Sidor plant is now half of what it was when Techint was in charge and, in contrast to a multiyear record of no work related deaths at the plant, three workers have been killed since May. He said that Chavez, for whatever reason, continues to paint a picture that progress is being made in the negotiations with Techint, but the reality is that no progress has been achieved for months. He said the GoA and President Fernandez de Kirchner had raised the issue of compensation with the Venezuelans, but it is not clear what impact the words have had. He said he hoped she would raise it again while visiting Caracas January 22-23. (Local media speculates that President Kirchner will again raise the Techint compensation issue in her state visit to Venezuela beginning January 22).

US Connection to GoA Intervention in TGN

¶3. (C) TGN distributes natural gas in central and northern Argentina. Its decision not to pay debts due in December sent warning signals about the suitability of public service concessions. Techint owns about 17%, France's Total about

17%, and the Bank of America's Blue Ridge Investment holds about 24% (bought from U.S. firm CMS as part of a purchase that included CMS, \$130 million contingent asset in a successful arbitral (ICSID) complaint against the GoA). In December, TGN said it would default on some \$22.5 million in negotiable bond debt. The GoA sent an official to co-administer the company and to look for irregularities. Then, the Government filed a legal complaint about irregularities discovered. Rocca said that, despite continued investment by TGN, the GoA had not let it increase prices charged for natural gas transport since 2001 and it had short-circuited profitable sales to Chile and Brazil. Senior GoA officials had told him that TGN would not get approval to raise prices unless the U.S.-owned CMS settled its ICSID claim with the GoA. The GoA was also upset with TGN because it refused to validate prices paid for the construction of new gas pumping stations and other construction related to the pipeline network, which the GoA contracted with Argentine companies (often at questionable cost). Rocca said that in this case the directors of TGN had decided that they needed to renegotiate debt payment schedules of the over US\$ 300 million debt outstanding and thus decided to postpone the December debt payment. He said the GoA is charging "irregularities" because the minutes of the board meeting to take the debt decision are supposed to be approved by all board members and circulated in five days, but it may have taken longer because of Christmas. He said he believed it would be shown that the company had proceeded correctly. Nevertheless, Rocca said Techint was going to talk with the Bank of America's Blue Ridge Investments in New York shortly about settling the ICSID ruling with the GoA

for a value less than the \$130 million granted by ICSID. He said it seems Blue Ridge purchased the liability from CMS for a good price and might be willing to cut a good deal with Argentina. This, in turn, could help solve the current TGN problem. Rocca said that in the past, Planning Minister De Vido had been very adamant about not paying the ICSID settlement to CMS. (Note: Embassy is pursuing this issue.)

Siderar Labor Dispute

¶4. (SBU) Techint in 2008 announced a major new investment in their Argentine steel production capacity including rebuilding a major blast furnace in St. Nicolas outside of Buenos Aires. However, steel demand in Argentina dropped 45% in December and has dropped more in January. Techint now expects greatly diminished demand in 2009. While deciding to maintain all of its employees despite the drop in demand, Techint decided to postpone further work on rehabilitation and expansion of its local facilities. This threatens to put out of work over 2000 local construction workers who were on contract with Techint. When local and union authorities complained to President Fernandez de Kirchner, she said that the jobs should be maintained. The Labor Minister then ordered negotiations between the company and the unions. Rocca went over with the Ambassador figures of investment, taxes and profit at Siderar in recent years to show how much the company contributed and contributes to the local economy but then showed other charts to demonstrate why it can't continue with planned investments given the economic downturn, which he predicted would worsen in Argentina during ¶2009. Rocca seemed to be focused on trying to convince the government to put the contract workers to work on public infrastructure projects and not try to force Techint to keep them on the rolls.

¶5. (C) Comment: Techint, long one of Argentina's few and most successful multinationals, is clearly facing some very difficult challenges. It is also having problems with its operations in Bolivia. Rocca was clearly concerned that the combination of economic downturn and congressional elections in Argentina this fall spell a very challenging work environment for his operations.

WAYNE